

TRENDS ON LOCALLY OWNED AND FINANCED BIODIESEL PLANTS

I come from a town of about 900 people in west central Iowa. I have lived in our community for almost 34 years and during that time have seen 33 classes graduate from our local high schools (of course they are now regional schools rather than each town having its own high school). The schools have done a decent job of educating the students, but during those years many of the top two thirds of each class have left the area, primarily because of a lack of opportunity to find challenging, well paying jobs in our communities. As a result, the population of our county has decreased from 15,573 in 1970 to 10,872 in 2005.

When I was in high school back in the 1960's there were often four families living on a section of Iowa farmland, now there may not be one family in four sections. There has been much consolidation of farms with some farmers in our area now farming from 5,000-25,000 acres. Most of the farmers who have survived with smaller gross acres have done so because of diversified livestock operations or by finding some special niche that they could capitalize upon. However, most of both our farm and town residents have not had an opportunity to participate in the "value added" side of their production. We have all been searching for value added opportunities in which rural Iowa has a competitive advantage. We believe we have found such an area with renewable energy in the forms of wind energy, ethanol and biodiesel.

In early 2004 our county Rural Electric Cooperative determined that it needed to explore possible new businesses for our county which would add to their customer base, since it has been shrinking yearly as the four families per section have turned into one family per four sections. The consultant they hired brought the idea of a biodiesel plant forward, an exploratory committee was formed in the early summer of 2004, and a small amount of capital raised to finance a feasibility study. Everyone on that committee was completely lacking any background in biodiesel, although a few had some experience with ethanol. At the time there were no large biodiesel plants on line, although there were two soy oil only feedstock 30 mgly plants under construction in Glenville and Brewster, Minnesota. At that time the Minnesota legislature had passed their minimum 2% biodiesel mandate, but the federal government has not yet passed the blenders' credit nor any other biodiesel specific legislation. Both of those projects had struggled to raise their equity capital even with the mandate in place.

The state of Iowa had not then and still has not passed any specific legislation to aid biodiesel sales, although they claim they will do so this legislative session.

With this context, the exploratory board invited some people with agricultural promotion experience to join the effort, along with myself. They specifically sought some geographical dispersion of those persons, with the goal of including persons who would have influence in different areas of the state when it became necessary to raise the required equity capital.

The board considered various types of legal entities. The first thought was a cooperative, the type of entity used for many of the early ethanol plants and the Brewster, Minnesota biodiesel plant which also includes a soybean crushing facility so that farmers are allowed to deliver soybeans to that facility. Ultimately, because we were going to be using both soy oil and rendered animal fat as our feedstock, the cooperative form was ruled out because there would be no opportunity for producers to deliver agricultural commodities to our plant, unlike is the case with ethanol plants.

Our biodiesel plant would be dependent on soybean crush plants or animal fat renderers to supply our feedstock. Also, we wanted to open the opportunity to all Iowans, not just farmers, so a limited liability company form of entity was chosen, which gives the company liability protection like a corporation but is taxed like a partnership. This means that all income as well as any tax credits pass through to the unit holders. We called the company Western Iowa Energy, LLC.

Next we focused on the plant itself. The board struggled to make many of its decisions, from what technology to use, whether to include soy oil pretreatment equipment (at a cost of an additional \$4.5 million) to whether to include dual feedstock capabilities (at a cost of an additional \$5 million for animal fat pretreatment equipment), and whether to sign a management, feedstock procurement and marketing contract with an experienced entity or to try to stand alone. We decided to include both feedstock pre-treatments and to enter into a management, procurement and marketing contract with West Central Cooperative who is the country's largest marketer of biodiesel.

We then turned to financing the project. We raised a little over \$900,000 of seed capital (which was all at risk but for which the investors get 2 units for the price of 1 if the equity drive is successful). Of that seed capital, \$500,000 was contributed by just five investors, and much of the rest in \$15,000 or lower investments. Anyone who had put in at least \$15,000 was given a seat on our 12 person board. All seed investors were insured of the right to match their original seed capital investment on a 2 units for 1 basis if the equity drive were successful.

Initially, based on the experience of similar renewable fuel projects, we thought raising the money was going to be a battle. We talked to four possible lenders, and all wanted us to raise at least 55% of the budget as equity capital.

In the meantime, the lenders' credit was passed and crude prices started their rise, so the picture brightened.

WIE started its equity drive with a big kick-off on March 7, 2005 and scheduled two meetings most week days through April 1, at which point we expected we would have to reassess and figure out what we should do to raise the rest. The board set the minimum investment at 20, \$1,000 units, but offered a 5% discount to anyone who subscribed by April 15, and a 2 ½% discount to anyone who subscribed before August 31.

To our great surprise, after 14 meetings over 11 week days, on March 17, 2005 we had raised a total of \$22,573,950 at which point the board cancelled the rest of the equity drive. More than \$2 million came in the mail over the next few days, which the board returned. We ended up accepting a total of 697 investors making an average investment of \$ 32,387.30. Our largest investor contributed \$294,500; 290 investors purchased the minimum 20 units; 21 investors contributed over \$100,000; and of the 697 investors, 454 were farmers.

No one was prepared for that. The engineers had done no engineering. The company that builds the vessels had not started building any, and there is a six month lag from date ordered to date the first vessels are delivered to the plant. Because of that, we could not start construction until mid-June of 2005, and we hope to start producing biodiesel around April 1, 2006. This plant will supply 30 jobs in our community with an annual payroll of about \$1 million. We had over 300 people apply for those jobs.

After experiencing the struggle that the WIE board went through in Wall Lake, five of us from that board established a development company that helps other folks in our previous situation expedite the process.

We have developed a model that we believe in. We are currently working with three other LLC's in Iowa to develop 30 mgd dual feedstock biodiesel plants in their communities. We plan to go into other states to provide those services in the near future.

We have established relationships with the company that performs site specific feasibility studies, develops business plans and handles the lender negotiations for the companies as well as an accounting firm that completes the

audited financial statements and five year financial forecasts and the law firm that drafts the prospectuses and handles the state registrations for the equity drives.

We believe we have done our due diligence on the technology, and have settled on the technology that we recommend. We also believe that net margins will be increased by entering into management, feedstock procurement and marketing contracts with the same company rather than trying to “stand alone”.

We recently completed a second equity drive in Newton, Iowa. That plant will be a carbon copy of the Wall Lake plant, but has used a projected budget of \$50 million to account for the higher costs involved as well as to provide additional working capital. The Biodiesel Group made its first trip to Newton on June 14, 2005, and despite running into delays caused by the holidays, Central Iowa Energy, LLC was able to get state approval to begin their equity drive on January 12, 2006. In that case, the company raised \$2.4 of seed capital in order to pay the early costs of the project, including paying for 3 months of intensive pre-engineering, paying a \$1 million down payment to begin the construction of the vessels needed for the plant and paying to lock in the cost of the steel.

Our consultant had gotten a financial commitment from a three lender consortium to loan 54% of the budgeted cost plus a \$2 million risk management fund, so our equity drive goal was to raise \$20 million of equity capital. We set a minimum 25 unit or \$25,000 minimum investment and offered no discounts. After 19 meetings held over 10 meeting days we had attained our goal. In Newton our largest investments were two of \$500,000 each. We ended up with 526 investors making an average investment of \$42,844.10, with 253 of those investors investing the minimum of \$25,000, and 38 making investments of \$100,000 or more. Again, there were many subscriptions agreements and checks received after the equity drive closed and those funds had to be returned.

Because we had made the prepayments for engineering and ordering equipment and had a lender commitment ahead of time we expect to begin pushing dirt at the CIE site within 30 days of the close of the equity drive.

Each of the equity drives to date has been intra-state only as will be the ones for the Washington and Farley, Iowa plants. Each project will follow the same model. We anticipate doing an inter-state offering for at least one plant in Illinois.

We are very gratified by the acceptance we have received from a wide cross section of people, many of whom have thanked us for presenting them with the investment opportunity. We are optimistic about the future for these early

plants, but recognize that there are feedstock limitations that will apply under present conditions to limit the number of plants that can be economically viable. We are very curious to see what the future will bring.

Thank you for your attention.